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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BBF 2644 – BANK MANAGEMENT
(All sections / Groups)

25 OCTOBER 2018
9.00a.m – 12.00p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **THREE (3)** pages with **FOUR (4)** questions.
2. Answer all the questions. The distribution of the marks for each question is given.
3. Please write your answer in the Answer Booklet provided.

QUESTION 1

a) Central Bank of Malaysia had decided to increase the overnight policy rate (OPR) by 25 basis points to 3.25 percent at the Monetary Policy Committee (MPC) meeting on January 25, 2018. This is the first OPR hike to happen since July 10, 2014.

(i) Briefly discuss why did Central Bank of Malaysia hike the OPR? (8 marks)

(ii) How will the OPR increase trigger a chain of events which affects the base rate (BR) and base lending rate (BLR)? (9 marks)

b) Is the purpose of Central Bank created the banking regulation to prevent bank failures? (8 marks)

(Total: 25 marks)

QUESTION 2

a) The recent trend in the banking industry is engage in activities off-balance sheet. Briefly explain what off-balance sheet is and provide any TWO (2) examples of the off-balance sheet items. (8 marks)

b) In recent years, how has the composition of deposits transformed? (7 marks)

(Total: 15 marks)

QUESTION 3

a) A corporate bond with a par value of RM10,000 that has 6.5 percent of the coupon rate annually. The maturity of the bond is two years and with the yield to maturity of 6 percent compounded semiannually. The current price of the bond is RM10,092.93. Determine the Macaulay's duration of this corporate bond. (5 marks)

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b) The following information has provided by the JP Morgan Bank's balance sheet data in year 2018. Determine the total risk-weighted assets and total risk-based capital ratio of the bank. Then justify whether the JP Morgan Bank had fulfilled the minimum capital requirement based on the Basel II accords.

Bank Assets		Bank Liabilities	
Items	RM	Items	RM
Municipal Bonds	1,500	Hot Money	7,500
Cash and Treasury Bill	2,200	Demand Deposits	6,100
Letter of Credit	1,000	Subordinated Debt	150
Collateralized Mortgage Obligation	2,700	Common Stock	200
Allowance for Loan Loss	(700)	Surplus	400
Residential Mortgage Loans	2,500	Retained Earnings	450
Business Loans	3,500		
Credit Card Loans	2,100		
Total	RM14,800		RM14,800

(12 marks)

c) The following is JP Morgan Bank's balance sheet and associated average interest rate. Assume the time frame for rate sensitivity is one year.

Assets	Market Value (RM)	Rate (%)	Liabilities & Equity	Market Value (RM)	Rate (%)
Rate sensitive	4300	7.3	Rate sensitive	3900	3.8
Fixed rate	1,400	8.9	Fixed rate	1650	6.3
Non-earning	500		Non-paying liabilities	650	
Total	RM6,200		Total	RM6,200	

(i) Measure the JP Morgan Bank's GAP, expected net interest income, and net interest margin if interest rates and portfolio composition remain constant during the year. (6 marks)

(ii) Measure the change in expected net interest income and net interest margin if the entire yield curve increases by 2 percent during the year. (4 marks)

d) Managing the bank liquidity is one of the significant tasks the management of any banking institution faces at all times. Discuss when is a banking institution adequately liquid? Provide one example that gives rise to the demand for liquidity and the supply of liquidity. (8 marks)

(Total: 35 marks)

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QUESTION 4

- a) Discuss what is the four-stage process for evaluating the financial aspects of commercial loans? (10 marks)
- b) Discuss what are the THREE (3) bank's credit cultures that drive a bank's lending activity? (15 marks)

(Total: 25 marks)

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